

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Elsie	County Clinton
Fiscal Year End March 31, 2006	Opinion Date February 23, 2007	Date Audit Report Submitted to State March 27, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

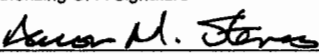
YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
Authorizing CPA Signature 		Printed Name Aaron M. Stevens, CPA	License Number 1101024055

**Village of Elsie  
Clinton County, Michigan**

**FINANCIAL STATEMENTS**

**March 31, 2006**

Village of Elsie

Clinton County, Michigan

March 31, 2006

VILLAGE COUNCIL AND ADMINISTRATION

Mr. James Ade	President
Ms. Teresa Ward	Trustee
Mr. Scott Carie	Trustee
Mr. Richard Stutzman	Trustee
Mr. Joseph Menovske	Trustee
Mr. Joseph Ondrusek	Trustee
Ms. Brenda England	Clerk
Ms. Susanne Bensinger	Treasurer

Village of Elsie

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Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



**ABRAHAM & GAFFNEY, P.C.**

Certified Public Accountants

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Suite 100  
East Lansing, MI 48823  
(517) 351-6836  
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INDEPENDENT AUDITOR'S REPORT

To the Honorable President  
and Members of the Village Council  
Village of Elsie  
Elsie, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Elsie, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Village's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Elsie, Michigan as of March 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 23, 2007, on our consideration of the Village of Elsie's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The budgetary comparison information, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Village has not presented a management's discussion and analysis (MD&A), which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that the MD&A is necessary to supplement, although not required to be part of the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Elsie's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

February 23, 2007

## **BASIC FINANCIAL STATEMENTS**

Village of Elsie

STATEMENT OF NET ASSETS

March 31, 2006

	Primary Government			Component
	Governmental	Business-type	Total	Unit
	Activities	Activities		(DDA)
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents	\$ 191,675	\$ 159,298	\$ 350,973	\$ 73,692
Investments	178,192	214,911	393,103	45,038
Receivables	-	21,434	21,434	-
Due from other governmental units	14,705	-	14,705	26,558
Internal balances	(85,539)	85,539	-0-	-
Total current assets	299,033	481,182	780,215	145,288
Noncurrent assets				
Special assessment receivable - noncurrent	-	1,625	1,625	-
Loan receivable	-	-	-0-	40,905
Capital assets not being depreciated	-	171,000	171,000	-
Capital assets, net of accumulated depreciation	127,801	6,072,726	6,200,527	-
Total noncurrent assets	127,801	6,245,351	6,373,152	40,905
<b>TOTAL ASSETS</b>	<b>426,834</b>	<b>6,726,533</b>	<b>7,153,367</b>	<b>186,193</b>
<b>LIABILITIES</b>				
Current liabilities				
Accounts payable	13,902	5,438	19,340	-
Accrued liabilities	3,004	197	3,201	-
Due to other governmental units	8,298	-	8,298	-
Accrued interest payable	-	21,804	21,804	-
Current portion of compensated absences	1,000	406	1,406	-
Current portion of long-term debt	-	54,296	54,296	-
Total current liabilities	26,204	82,141	108,345	-0-
Noncurrent liabilities				
Noncurrent portion of compensated absences	3,000	1,222	4,222	-
Noncurrent portion of long-term debt	-	2,132,536	2,132,536	-
Total noncurrent liabilities	3,000	2,133,758	2,136,758	-0-
<b>TOTAL LIABILITIES</b>	<b>29,204</b>	<b>2,215,899</b>	<b>2,245,103</b>	<b>-0-</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	127,801	4,056,894	4,184,695	-
Restricted for other purposes	158,034	-	158,034	-
Unrestricted	111,795	453,740	565,535	186,193
<b>TOTAL NET ASSETS</b>	<b>\$ 397,630</b>	<b>\$ 4,510,634</b>	<b>\$ 4,908,264</b>	<b>\$ 186,193</b>

See accompanying notes to financial statements.



Village of Elsie  
STATEMENT OF ACTIVITIES  
Year Ended March 31, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			Component Unit (DDA)
		Charges for Services	Operating Grants and Contributions	Primary Government			
				Governmental Activities	Business-type Activities	Total	
Governmental activities							
General government	\$ 216,115	\$ 21,093	\$ 4,088	\$ (190,934)	\$ -	\$ (190,934)	\$ -
Public safety	132,418	-	-	(132,418)	-	(132,418)	-
Public works	143,186	-	80,217	(62,969)	-	(62,969)	-
Community and economic development	3,205	1,302	-	(1,903)	-	(1,903)	-
Recreation and cultural	17,763	-	-	(17,763)	-	(17,763)	-
Total governmental activities	512,687	22,395	84,305	(405,987)	-0-	(405,987)	-0-
Business-type activities							
Sewer system	268,216	145,843	-	-	(122,373)	(122,373)	-
Water system	159,425	134,295	-	-	(25,130)	(25,130)	-
Total business-type activities	427,641	280,138	-0-	-0-	(147,503)	(147,503)	-0-
Total primary government	<u>\$ 940,328</u>	<u>\$ 302,533</u>	<u>\$ 84,305</u>	(405,987)	(147,503)	(553,490)	-0-
Component unit							
Downtown Development Authority	<u>\$ 31,215</u>	<u>\$ -</u>	<u>\$ -</u>	-0-	-0-	-0-	(31,215)
		General revenues					
		Property taxes		272,897	-	272,897	66,674
		State shared revenue		113,742	-	113,742	-
		Investment earnings		3,131	8,101	11,232	301
		Miscellaneous		5,059	6,019	11,078	-
		Total general revenues		394,829	14,120	408,949	66,975
		Change in net assets		(11,158)	(133,383)	(144,541)	35,760
		Net assets, beginning of the year		408,788	4,644,017	5,052,805	150,433
		Net assets, end of the year		<u>\$ 397,630</u>	<u>\$ 4,510,634</u>	<u>\$ 4,908,264</u>	<u>\$ 186,193</u>

See accompanying notes to financial statements.

Village of Elsie

GOVERNMENTAL FUNDS BALANCE SHEET

March 31, 2006

	General	Major Street	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 158,716	\$ 29,945	\$ 3,014	\$ 191,675
Investments	86,744	2,116	89,332	178,192
Due from other governmental units	-	10,862	3,843	14,705
Due from other funds	-	-	22,031	22,031
<b>TOTAL ASSETS</b>	<b>\$ 245,460</b>	<b>\$ 42,923</b>	<b>\$ 118,220</b>	<b>\$ 406,603</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 11,111	\$ 2,033	\$ 758	\$ 13,902
Accrued liabilities	2,686	120	198	3,004
Due to other governmental units	8,298	-	-	8,298
Due to other funds	107,570	-	-	107,570
<b>TOTAL LIABILITIES</b>	<b>129,665</b>	<b>2,153</b>	<b>956</b>	<b>132,774</b>
<b>FUND BALANCES</b>				
Reserved for perpetual care	-	-	111,363	111,363
Unreserved				
Undesignated, reported in:				
General fund	115,795	-	-	115,795
Special revenue funds	-	40,770	5,901	46,671
<b>TOTAL FUND BALANCES</b>	<b>115,795</b>	<b>40,770</b>	<b>117,264</b>	<b>273,829</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 245,460</b>	<b>\$ 42,923</b>	<b>\$ 118,220</b>	<b>\$ 406,603</b>

See accompanying notes to financial statements.

Village of Elsie

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

March 31, 2006

**Total fund balances - governmental funds** \$ 273,829

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 296,984
Accumulated depreciation is	<u>(169,183)</u>

Capital assets, net	127,801
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Long-term liabilities are not due and payable in the current period and  
therefore are not reported in the Governmental Funds Balance Sheet.

Long-term liabilities at year-end consist of:

Compensated absences	<u>(4,000)</u>
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<b>Net assets of governmental activities</b>	<u><u>\$ 397,630</u></u>
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See accompanying notes to financial statements.

Village of Elsie

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS

Year Ended March 31, 2006

	General	Major Street	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 200,976	\$ 50,410	\$ 21,511	\$ 272,897
Licenses and permits	2,440	-	-	2,440
Intergovernmental	118,151	59,253	20,964	198,368
Charges for services	17,863	-	-	17,863
Interest and rents	3,316	939	286	4,541
Other	5,420	-	-	5,420
TOTAL REVENUES	348,166	110,602	42,761	501,529
EXPENDITURES				
Current				
General government	213,092	-	-	213,092
Public safety	120,693	-	-	120,693
Public works	-	98,471	38,054	136,525
Community and economic development	3,205	-	-	3,205
Recreation and cultural	17,763	-	-	17,763
TOTAL EXPENDITURES	354,753	98,471	38,054	491,278
NET CHANGE IN FUND BALANCES	(6,587)	12,131	4,707	10,251
Fund balances, beginning of year	122,382	28,639	112,557	263,578
Fund balances, end of year	<u>\$ 115,795</u>	<u>\$ 40,770</u>	<u>\$ 117,264</u>	<u>\$ 273,829</u>

See accompanying notes to financial statements.

Village of Elsie

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended March 31, 2006

**Net change in fund balances - total governmental funds** \$ 10,251

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Depreciation expense (26,962)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	408	
Decrease in accrued compensated absences	<u>5,145</u>	
		<u>5,553</u>

**Change in net assets of governmental activities** \$ (11,158)

See accompanying notes to financial statements.

Village of Elsie

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

March 31, 2006

	Business-type Activities		
	Sewer System	Water System	Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 111,886	\$ 47,412	\$ 159,298
Investments	195,869	19,042	214,911
Accounts receivable	11,814	8,376	20,190
Taxes receivable	984	-	984
Special assessments receivable - current	260	-	260
Due from other funds	85,539	-	85,539
Total current assets	406,352	74,830	481,182
Noncurrent assets			
Special assessments receivable - noncurrent	1,625	-	1,625
Capital assets not being depreciated	153,000	18,000	171,000
Capital assets, net of accumulated depreciation	5,160,432	912,294	6,072,726
Total noncurrent assets	5,315,057	930,294	6,245,351
<b>TOTAL ASSETS</b>	<b>5,721,409</b>	<b>1,005,124</b>	<b>6,726,533</b>
<b>LIABILITIES</b>			
Current liabilities			
Accounts payable	3,202	2,236	5,438
Accrued liabilities	107	90	197
Accrued interest payable	6,409	15,395	21,804
Current portion of compensated absences	184	222	406
Current portion of long-term debt	21,000	33,296	54,296
Total current liabilities	30,902	51,239	82,141
Noncurrent liabilities			
Noncurrent portion of compensated absences	554	668	1,222
Noncurrent portion of long-term debt	1,688,000	444,536	2,132,536
Total noncurrent liabilities	1,688,554	445,204	2,133,758
<b>TOTAL LIABILITIES</b>	<b>1,719,456</b>	<b>496,443</b>	<b>2,215,899</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	3,604,432	452,462	4,056,894
Unrestricted	397,521	56,219	453,740
<b>TOTAL NET ASSETS</b>	<b>\$ 4,001,953</b>	<b>\$ 508,681</b>	<b>\$ 4,510,634</b>

See accompanying notes to financial statements.

Village of Elsie

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -  
PROPRIETARY FUNDS

Year Ended March 31, 2006

	Business-type Activities		
	Sewer System	Water System	Total
OPERATING REVENUES			
Charges for services	\$ 145,843	\$ 134,295	\$ 280,138
Other	3,706	2,313	6,019
TOTAL REVENUES	149,549	136,608	286,157
OPERATING EXPENSES			
Salaries and wages	21,179	40,585	61,764
Fringe benefits	5,766	7,486	13,252
Contractual services	5,152	9,782	14,934
Supplies	9,042	22,849	31,891
Insurance	951	2,790	3,741
Utilities	13,090	12,591	25,681
Training	-	375	375
Communications	1,456	98	1,554
Printing and publishing	-	1,287	1,287
Repairs and maintenance	1,560	1,280	2,840
Vehicle expense	3,077	1,395	4,472
Other	1,550	754	2,304
Depreciation	131,037	30,950	161,987
TOTAL OPERATING EXPENSES	193,860	132,222	326,082
OPERATING INCOME (LOSS)	(44,311)	4,386	(39,925)
NONOPERATING REVENUES (EXPENSES)			
Interest revenue	7,334	767	8,101
Interest expense	(74,356)	(27,203)	(101,559)
TOTAL NONOPERATING REVENUES (EXPENSES)	(67,022)	(26,436)	(93,458)
CHANGE IN NET ASSETS	(111,333)	(22,050)	(133,383)
Net assets, beginning of year	4,113,286	530,731	4,644,017
Net assets, end of year	\$ 4,001,953	\$ 508,681	\$ 4,510,634

See accompanying notes to financial statements.

Village of Elsie

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year Ended March 31, 2006

	Business-type Activities		
	Sewer System	Water System	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash receipts from customers	\$ 149,599	\$ 139,086	\$ 288,685
Cash receipts from internal funds	(21,656)	(91,767)	(113,423)
Cash paid to employees	(28,494)	(50,792)	(79,286)
Cash paid to suppliers	(36,693)	(60,571)	(97,264)
Cash paid to internal funds	45,579	21,825	67,404
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>108,335</b>	<b>(42,219)</b>	<b>66,116</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest revenue	7,334	767	8,101
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchase of investments	(4,225)	(412)	(4,637)
Purchase of capital assets	-	(10,206)	(10,206)
Payments of borrowing	(20,000)	(32,168)	(52,168)
Loan proceeds	-	10,206	10,206
Interest expense	(74,356)	(27,203)	(101,559)
<b>NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(98,581)</b>	<b>(59,783)</b>	<b>(158,364)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>17,088</b>	<b>(101,235)</b>	<b>(84,147)</b>
Cash and cash equivalents, beginning of year	94,798	148,647	243,445
Cash and cash equivalents, end of year	<u>\$ 111,886</u>	<u>\$ 47,412</u>	<u>\$ 159,298</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ (44,311)	\$ 4,386	\$ (39,925)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	131,037	30,950	161,987
Decrease in receivables	50	2,478	2,528
Decrease in due from other funds	45,579	21,825	67,404
(Decrease) in accounts payable	(740)	(5,907)	(6,647)
(Decrease) in accrued liabilities	(1,064)	(1,953)	(3,017)
(Decrease) in compensated absences	(485)	(768)	(1,253)
(Decrease) in accrued interest payable	(75)	(1,463)	(1,538)
(Decrease) in due to other funds	(21,656)	(91,767)	(113,423)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 108,335</b>	<b>\$ (42,219)</b>	<b>\$ 66,116</b>

See accompanying notes to financial statements.



NOTES TO FINANCIAL STATEMENTS

March 31, 2006

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Village of Elsie is located in Clinton County, Michigan and has a population of approximately 1,000. The Village of Elsie operates with a Village President/Council form of government and provides services to its residents in many areas including general government, law enforcement, highways and streets, human services, and utilities services.

The Village Council is made up of the Village President and six (6) trustees who are selected at large for four year terms. As of March 31, 2006, the Council had a vacancy in one of its trustee positions.

The financial statements of the Village have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to Village governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Village's more significant accounting policies are described below.

**1. Reporting Entity**

As required by generally accepted accounting principles; GASB Statement No. 14, *The Financial Reporting Entity*; and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the Village of Elsie (primary government) and its component unit (Downtown Development Authority). The component unit described in Section 2 below is included in the Village's reporting entity because of the significance of the operational and financial relationship with the Village.

Based upon the application of these criteria, the general purpose financial statements of the Village of Elsie contain all the funds and account groups controlled by the Village Council.

**2. Discretely Presented Component Unit**

The component unit column in the general purpose financial statements includes the financial data of the Village's component unit (Downtown Development Authority). It is reported in a separate column to emphasize that it is legally separate from the Village.

The governing body of the Downtown Development Authority is appointed by the Village Council, the Authority's budget is subject to the approval of the Village Council, and the Village temporarily relinquishes part of its tax base to the Authority (tax increment revenues).

**3. Joint Venture**

The Village participates in the following activity, which is considered to be a joint venture in relation to the Village due to the formation of an organization by contractual agreement between two or more participants that maintain just control, financial interest, and financial responsibility.

Elsie Area Fire Association - The Village of Elsie, in conjunction with Duplain, Fairfield, and Chapin Townships, has entered into an agreement which created the Elsie Area Fire Association. Each municipality appoints one individual and the fire department appoints one individual at large to the governing body of the Fire Association. The at large member shall not be a member of, or associated with the fire department.

**4. Related Organization**

The Elsie Dairy Festival is a separate entity established to raise funds and sponsor the annual dairy festival and other activities held in the Village. The Village appoints one (1) of its Board Members to serve as the Village representative on the Committee that organizes the festival activities. The Village provides insurance coverage for the festival and allows festival activities to be held on Village owned properties. The Village also provides public works and police support for the festival at no cost. The Village did not contribute to the operational costs of the festival for the year ended March 31, 2006.

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

5. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government and its component unit as a whole. All activities of the primary government are included. For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and its component unit and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Village's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and the major individual enterprise fund are reported as separate columns in the fund financial statements.

The major funds of the Village are:

- a. The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Major Street Fund is used to account for the financial resources that are used for repairs and maintenance of the Village's major streets.
- d. The Sewer System Fund accounts for resources generated by providing sewer services to residents of the Village; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- e. The Water System Fund accounts for resources generated by providing water services to residents of the Village; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

6. Measurement Focus

The government-wide and proprietary financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**7. Basis of Accounting**

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental and component unit funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues, which are considered measurable but not available, are recorded as a receivable and deferred revenue. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

The proprietary funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

**8. Budgets and Budgetary Accounting**

The General and Major Special Revenue Funds' budgets shown as required supplementary information to the financial statements were prepared on a basis consistent with the modified accrual basis used to reflect actual results. The Village employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. Prior to April 1, the Village President submits to Village Council the proposed operating budgets for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to April 1, the budget is legally adopted with passage by Council vote.
- d. The budget is legally adopted at the activity level for the General Fund and total expenditure level for the Special Revenue Funds; however, they are maintained at the account level for control purposes.
- e. The Village does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at March 31, 2006 are not carried forward to the following fiscal year.
- f. Budgeted amounts are reported as originally adopted or amended by the Village Council during the year. Individual amendments were appropriately approved by the Village Council as required.

Village of Elsie

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

9. Cash and Cash Equivalents

The Village pools cash resources of various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balances in the pooled cash accounts are available to meet current operating requirements. Cash equivalents consist of pooled temporary investments in mutual funds and certificates of deposit with an original maturity of 90 days or less from the date of purchase.

10. Investments

Investments consist of U.S. Government Securities with original maturities of greater than 90 days. Investments are recorded at market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

11. Property Tax

The Village of Elsie bills and collects its own property taxes. The Village's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph.

Property taxes are levied by the Village of Elsie on July 1 and are payable without penalty through September 15. All real property taxes not paid to the Village by September 15 are turned over to the Clinton County Treasurer for collection. The Clinton County Treasurer remits payments to all taxing districts on any delinquent real property taxes. Delinquent personal property taxes are retained by the Village for subsequent collection. Collections and remittances of all taxes are accounted for in the General Fund. Village property tax revenues are recognized as revenues in the fiscal year levied.

The Village is permitted to levy taxes up to 18.5 mills (\$18.50 per \$1,000 of taxable valuation) for general governmental services other than the payment of Debt Service Fund expenditures. For the year ended March 31, 2006, the Village levied 12.5 mills per \$1,000 of assessed valuation for general governmental services. In addition, the Village levied 5.0 mills for street maintenance and 1.0 mill for cemetery maintenance. The total taxable value for the 2005 levy for property within the Village was \$17,917,211.

The Downtown Development Authority (component unit) receives "tax increment" revenue. The taxing units are required by law to transmit to the Authority that portion of the tax levy of all taxing bodies paid each year on the captured taxable value of all real and personal property located in the development area. The "captured taxable value" is basically defined as the amount in any one year by which the current taxable value of the project area exceeds the initial taxable value.

12. Compensated Absences

Village employees are granted vacation, sick, and personal leave in varying amounts. In the event of termination, an employee is paid for one-half of accumulated sick days and all accumulated unused vacation and personal leave days.

For governmental funds, the cost of accumulated compensated absences along with the related payroll taxes are recorded entirely in the government-wide financial statements. For proprietary funds, the cost is recorded as a fund liability when earned.

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

**NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

13. Capital Assets

Capital assets include land, buildings, equipment, vehicles, sewer system and improvements, and water system and improvements and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities and business-type activities columns. Capital assets are those with an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings	50 years
Vehicles	5 - 15 years
Machinery and equipment	10 years
Sewer system and improvements	20 - 75 years
Water system and improvements	40 years

14. Long-term Liabilities

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

15. Comparative Data

Comparative data for the prior year has not been presented in all funds in the accompanying financial statements since their inclusion would make the financial statements unduly complex and difficult to read.

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS**

In accordance with Michigan Compiled Laws, the Village is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC), or a credit union which is insured by the National Credit Union Administration or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration, or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United State government and which maintains a principal office or branch office located in this State under the laws of this State, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act no. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association or Government National Mortgage Association.

**Deposits**

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of March 31, 2006, the carrying amount of the Village's deposits was \$311,262 and the bank balance was \$337,994, of which \$218,730 was covered by federal depository insurance. The remaining balance of \$119,264 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Village held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

## NOTES TO FINANCIAL STATEMENTS

March 31, 2006

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**Investments

As of March 31, 2006, the market values, which are the carrying values for each investment, are as follows:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Moody's Rating</u>	<u>Weighted Average Maturity</u>
PRIMARY GOVERNMENT				
Money market funds	\$ 237,196	\$ 237,196	N/A	N/A
Government National Mortgage Association	<u>314,348</u>	<u>314,348</u>	Aaa	13.2 years
<b>TOTAL PRIMARY GOVERNMENT</b>	<b><u>\$ 551,544</u></b>	<b><u>\$ 551,544</u></b>		

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's).

Interest rate risk

The Village has not adopted a policy that indicates how the Village will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates.

Concentration of credit risk

The Village has not adopted a policy that indicates how the Village will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Village's investment in a single issuer.

The cash and cash equivalents and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of March 31, 2006:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Total</u>
Cash and cash equivalents	\$ 350,973	\$ 73,692	\$ 424,665
Investments	<u>393,103</u>	<u>45,038</u>	<u>438,141</u>
	<b><u>\$ 744,076</u></b>	<b><u>\$ 118,730</u></b>	<b><u>\$ 862,806</u></b>

Village of Elsie

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

**NOTE C: POOLING OF CASH AND INVESTMENTS AND CASH OVERDRAFT**

The Village utilizes pooled cash accounts for various funds. Cash overdrafts of individual funds as of March 31, 2006, are as follows:

<u>Fund</u>	<u>Pooled Cash Overdraft</u>	<u>Nonpooled Cash &amp; Cash Equivalents</u>	<u>Financial Statements</u>
<b>PRIMARY GOVERNMENT</b>			
Special Revenue Funds			
Major Street	\$( 25,623 )	\$ 55,568	\$ 29,945
Local Street	( 25,050 )	28,064	3,014
Enterprise Funds			
Sewer System	( 33,524 )	145,410	111,886
Water System	( 62,934 )	110,346	47,412
Total reporting entity	<u>\$( 147,131 )</u>	<u>\$ 339,388</u>	<u>\$ 192,257</u>

**NOTE D: INTERFUND RECEIVABLES AND PAYABLES**

The following schedule details primary government interfund receivables and payables at March 31, 2006:

Due to Nonmajor Governmental Funds from:	
General Fund	\$ 22,031
Due to Sewer System Fund from:	
General Fund	<u>85,539</u>
	<u>\$ 107,570</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

**NOTE E: CAPITAL ASSETS**

Capital asset activity for the year ended March 31, 2006 was as follows:

	<u>Balance April 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance March 31, 2006</u>
<b>Governmental activities</b>				
Capital assets being depreciated:				
Buildings	\$ 95,013	\$ -	\$ -	\$ 95,013
Vehicles	119,231	-	-	119,231
Machinery and equipment	<u>82,740</u>	<u>-</u>	<u>-</u>	<u>82,740</u>
Total at historical cost	296,984	-0-	-0-	296,984



Village of Elsie

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

**NOTE E: CAPITAL ASSETS - CONTINUED**

	Balance April 1, 2005	Additions	Deletions	Balance March 31, 2006
<b>Governmental activities - continued</b>				
Less accumulated depreciation for:				
Buildings	\$( 44,638 )	\$( 2,842 )	\$ -	\$( 47,480 )
Vehicles	( 70,693 )	( 15,846 )	-	( 86,539 )
Machinery and equipment	( 26,890 )	( 8,274 )	-	( 35,164 )
Total accumulated depreciation	( 142,221 )	( 26,962 )	-0-	( 169,183 )
Capital assets, net	\$ 154,763	\$( 26,962 )	\$ -0-	\$ 127,801

Depreciation expense was charged to the following governmental activities:

General government	\$ 8,576
Public safety	11,725
Public works	6,661
Total depreciation expense	\$ 26,962

	Balance April 1, 2005	Additions	Deletions	Balance March 31, 2006
<b>Business-type activities</b>				
<b>Sewer System Fund</b>				
Capital assets not being depreciated:				
Land	\$ 153,000	\$ -	\$ -	\$ 153,000
Capital assets being depreciated:				
Equipment	185,323	-	-	185,323
Sewer system	6,691,198	-	-	6,691,198
Total at historical cost	6,876,521	-0-	-0-	6,876,521
Less accumulated depreciation for:				
Equipment	( 61,217 )	( 10,083 )	-	( 71,300 )
Sewer system	(1,523,835 )	( 120,954 )	-	(1,644,789 )
Total accumulated depreciation	(1,585,052 )	( 131,037 )	-0-	(1,716,089 )
Net capital assets being depreciated	5,291,469	( 131,037 )	-0-	5,160,432
Capital assets, net	\$ 5,444,469	\$( 131,037 )	\$ -0-	\$ 5,313,432

Village of Elsie

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

**NOTE E: CAPITAL ASSETS - CONTINUED**

	Balance April 1, 2005	Additions	Deletions	Balance March 31, 2006
<b>Water System Fund</b>				
Capital assets not being depreciated:				
Land	\$ 18,000	\$ -	\$ -	\$ 18,000
Construction in progress	<u>269,794</u>	<u>10,206</u>	<u>( 280,000 )</u>	<u>-</u>
Total capital assets not being depreciated	287,794	10,206	( 280,000 )	18,000
Capital assets being depreciated:				
Equipment	86,115	-	-	86,115
Water system	<u>940,284</u>	<u>280,000</u>	<u>-</u>	<u>1,220,284</u>
Total at historical cost	1,026,399	280,000	-0-	1,306,399
Less accumulated depreciation for:				
Equipment	( 73,991 )	( 3,943 )	-	( 77,934 )
Water system	<u>( 289,164 )</u>	<u>( 27,007 )</u>	<u>-</u>	<u>( 316,171 )</u>
Total accumulated depreciation	<u>( 363,155 )</u>	<u>( 30,950 )</u>	<u>-0-</u>	<u>( 394,105 )</u>
Net capital assets being depreciated	<u>663,244</u>	<u>249,050</u>	<u>-0-</u>	<u>912,294</u>
Capital assets, net	<u>\$ 951,038</u>	<u>\$ 259,256</u>	<u>\$( 280,000 )</u>	<u>\$ 930,294</u>

**NOTE F: LONG-TERM DEBT**

The following is a summary of changes in long-term debt (including current portion) of the Village for the year ended March 31, 2006.

	Balance April 1, 2005	Additions	Deletions	Balance March 31, 2006	Amount Due Within One Year
<b>PRIMARY GOVERNMENT</b>					
Governmental Activities					
Compensated absences	\$ 9,145	\$ -	\$( 5,145 )	\$ 4,000	\$ 1,000
Business-type Activities					
Sewer System Fund					
2002 Revenue Bonds	1,729,000	-	( 20,000 )	1,709,000	21,000
Water System Fund					
1997C Refunding Bonds	230,000	-	( 10,000 )	220,000	10,000
Installment purchase	<u>269,794</u>	<u>10,206</u>	<u>( 22,168 )</u>	<u>257,832</u>	<u>23,296</u>
	<u>2,228,794</u>	<u>10,206</u>	<u>( 52,168 )</u>	<u>2,186,832</u>	<u>54,296</u>
	<u>\$ 2,237,939</u>	<u>\$ 10,206</u>	<u>\$( 57,313 )</u>	<u>\$ 2,190,832</u>	<u>\$ 55,296</u>

Village of Elsie

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

**NOTE F: LONG-TERM DEBT - CONTINUED**

In 1997 the Village entered into an agreement with the Michigan Municipal Bond Authority to refund the 1990 Water Revenue Bonds and replace them with the 1997C Refunding Bonds. The refunding of the bonds did not change the Village's principal amounts due or the timing or duration of the payments but provided a better interest rate on the outstanding bonds. This resulted in a reduction in future interest payments by \$49,303.

Significant details regarding outstanding long-term debt (including current portion) are presented below:

Sewer System Revenue Bonds

\$1,800,000 Sewer System Revenue Bonds, dated the various dates delivered to the purchaser(s), due in annual installments to be set by the U.S. Department of Agriculture with a final maturity date no later than September 1, 2042, with interest not to exceed 4.50 percent, payable semi-annually.

\$ 1,709,000

Water System Refunding Bonds

\$265,000 Water Refunding Bonds, dated October 16, 1997, due in annual installments ranging from \$10,000 to \$25,000 through May 1, 2020, with interest of 5.274 percent, payable semi-annually.

\$ 220,000

Installment Purchase

\$280,000 installment purchase, dated May 25, 2006, due in annual installments of \$36,420 through May 25, 2014, including interest of 5.09% payable annually.

\$ 257,832

Accrued Compensated Absences

Individual employees have vested rights upon termination of employment to receive payments for unused compensated absences. The dollar amounts of these vested rights have been accrued on the government-wide financial statements. The total liability amounted to approximately \$5,627 at March 31, 2006. Of this amount, \$1,627 is shown as accrued liabilities within the Enterprise Funds in accordance with criteria disclosed in Note A.

The annual requirement to pay the debt principal and interest outstanding for the Village's long-term debt is as follows:

PRIMARY GOVERNMENT

Year Ending Mar 31,	<u>Revenue Bonds</u>		<u>Refunding Bonds</u>		<u>Installment Purchase</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 21,000	\$ 76,883	\$ 10,000	\$ 15,588	\$ 23,296	\$ 13,124
2008	22,000	75,937	10,000	14,863	24,482	11,938
2009	23,000	74,947	10,000	14,137	25,728	10,692
2010	24,000	73,913	10,000	13,412	27,038	9,382
2011-2015	136,000	352,440	65,000	54,556	157,288	24,812
2016-2020	170,000	318,938	90,000	26,462	-	-
2021-2025	212,000	276,908	25,000	906	-	-
2026-2030	265,000	224,685	-	-	-	-
2031-2035	330,000	159,435	-	-	-	-
2036-2040	412,000	78,030	-	-	-	-
2041-2045	94,000	6,255	-	-	-	-
	<u>\$ 1,709,000</u>	<u>\$ 1,718,371</u>	<u>\$ 220,000</u>	<u>\$ 139,924</u>	<u>\$ 257,832</u>	<u>\$ 69,948</u>

Village of Elsie

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

**NOTE G: RETIREMENT PLAN**

Plan Description

The Village participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees of the Village. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917. In August 2006 the Village withdrew from the Michigan Municipal Employees Retirement System.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Village Council. The plan requires no contribution from the employees.

Annual Pension Cost

For year ended March 31, 2006, the Village's annual pension cost of \$3,122 for the plan was equal to the Village's required and actual contribution. The annual estimated contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 8.40% per year depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis over a period of 30 years.

Three (3) year trend information

	Year Ended December 31,		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Actuarial value of assets	\$ 151,776	\$ 168,255	\$ 173,721
Actuarial accrued liability (AAL) (entry age)	172,236	171,794	155,441
Unfunded AAL	20,460	3,539	( 18,280 )
Funded ratio	88 %	98 %	112 %
Covered payroll	124,625	211,732	41,282
UAAL as a percentage of covered payroll	16 %	2 %	0 %

	Year Ended March 31,		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Annual pension cost	\$ 8,625	\$ 11,114	\$ 3,122
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

Village of Elsie

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

**NOTE G: RETIREMENT PLAN - CONTINUED**

In January 2006, the Village of Elsie established a SIMPLE IRA for the sole benefit of its employees. Contributions are based on a preestablished wage-based contribution schedule with the Village contributing 100% of the amount. Employees may elect to contribute additional amounts ranging from 1 to 10 percent of their compensation. During the year ended March 31, 2006, the Village of Elsie made contributions for all eligible participating employees equal to 3 percent of their base compensation. To be eligible to participate, an employee must be full-time, eighteen (18) years of age, and have completed six (6) months of services. Elected officials are not required to fulfill the service requirements. The eligibility computation period is the six (6) month period that begins with the date hired.

All eligible employees participate in the plan. The contributions fund the premiums for ordinary life insurance tax deferred annuities and various pooled investment funds with the Western Southern Financial Group.

For the year ended March 31, 2006, the Village had a total payroll of \$248,470. The retirement plan had a covered payroll of \$22,986. The Village made employer contributions to the retirement plan in the amount of \$766.

**NOTE H: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the required supplementary information to the financial statements, the Village's budgeted expenditures in the General and Major Special Revenue Fund have been shown at the functional classification level. The approved budgets of the Village have been adopted at the activity level for the General Fund and the total expenditure level for the Special Revenue Funds.

During the year ended March 31, 2006, the Village incurred expenditures in the General and Major Street Funds in excess of the amounts appropriated as follows:

	<u>Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Current			
General government			
Attorney	\$ 5,000	\$ 7,337	\$ 2,337
Clerk	2,900	2,951	51
Other village services	154,187	157,131	2,944
Recreation and Cultural			
Parks and recreation	14,393	17,763	3,370
Major Street Fund	77,075	98,471	21,396

**NOTE I: FUND EQUITY RESERVES**

Reserved fund balances are used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use.

The following are the various fund balance reserves as of March 31, 2006:

Fund Balance

Cemetery Perpetual Care Fund  
Reserved for perpetual care

\$ 111,363

Village of Elsie

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

**NOTE J: RESTRICTED NET ASSETS**

Restrictions of net assets shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of March 31, 2006:

Other Purposes	
Major Street	\$ 40,770
Local Street	5,901
Cemetery perpetual care	<u>111,363</u>
	<u>\$ 158,034</u>

**NOTE K: RISK MANAGEMENT**

The Village participates in a pool, the Michigan Municipal Liability and Property Pool, with other municipalities for auto, property, additional equipment, boiler and machinery, official bond and oath, crime, and liability losses. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Village has not been informed of any special assessments being required.

The Village also participates in a pool, the Michigan Municipal Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Village has not been informed of any special assessments being required.

## **REQUIRED SUPPLEMENTARY INFORMATION**

Village of Elsie

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>REVENUES</b>				
Taxes	\$ 245,000	\$ 212,000	\$ 200,976	\$ (11,024)
Licenses and permits	5,750	5,750	2,440	(3,310)
Intergovernmental - State	116,500	116,500	118,151	1,651
Charges for services	12,150	12,150	17,863	5,713
Interest and rents	2,700	2,700	3,316	616
Other	15,937	15,937	5,420	(10,517)
<b>TOTAL REVENUES</b>	<b>398,037</b>	<b>365,037</b>	<b>348,166</b>	<b>(16,871)</b>
<b>EXPENDITURES</b>				
Current				
General government				
Legislative	17,350	18,940	18,709	231
Elections	1,000	1,000	-	1,000
Attorney	5,000	5,000	7,337	(2,337)
Clerk	4,000	2,900	2,951	(51)
Treasurer	5,395	5,845	5,843	2
Building and grounds	16,255	10,031	2,980	7,051
Cemetery	25,556	20,487	18,141	2,346
Other village services	186,702	154,187	157,131	(2,944)
Total general government	261,258	218,390	213,092	5,298
Public safety				
Police department	151,655	121,716	120,693	1,023
Fire department	7,000	7,000	-	7,000
Total public safety	158,655	128,716	120,693	8,023
Community and economic development				
Zoning	4,926	4,842	3,205	1,637
DDA payment	30,000	52,285	-	52,285
Total community and economic development	34,926	57,127	3,205	53,922
Recreation and cultural				
Parks and recreation	15,735	14,393	17,763	(3,370)
<b>TOTAL EXPENDITURES</b>	<b>470,574</b>	<b>418,626</b>	<b>354,753</b>	<b>63,873</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(72,537)</b>	<b>(53,589)</b>	<b>(6,587)</b>	<b>47,002</b>
Fund balance, beginning of year	122,382	122,382	122,382	-0-
Fund balance, end of year	\$ 49,845	\$ 68,793	\$ 115,795	\$ 47,002



Village of Elsie

Major Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended March 31, 2006

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ -	\$ -	\$ 50,410	\$ 50,410
Intergovernmental - State	63,000	63,000	59,253	(3,747)
Interest	480	480	939	459
TOTAL REVENUES	63,480	63,480	110,602	47,122
EXPENDITURES				
Current				
Public works				
Routine Maintenance	65,300	65,300	98,221	(32,921)
Winter Maintenance	11,775	11,775	250	11,525
TOTAL EXPENDITURES	77,075	77,075	98,471	(21,396)
NET CHANGE IN FUND BALANCE	(13,595)	(13,595)	12,131	25,726
Fund balance, beginning of year	28,639	28,639	28,639	-0-
Fund balance, end of year	<u>\$ 15,044</u>	<u>\$ 15,044</u>	<u>\$ 40,770</u>	<u>\$ 25,726</u>

## **OTHER SUPPLEMENTARY INFORMATION**

Village of Elsie  
Nonmajor Governmental Funds  
COMBINING BALANCE SHEET  
March 31, 2006

	Special Revenue	Permanent Cemetery Perpetual Care	Total Nonmajor Governmental Funds
	Local Street		
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,014	\$ -	\$ 3,014
Investments	-	89,332	89,332
Due from other governmental units - State	3,843	-	3,843
Due from other funds	-	22,031	22,031
<b>TOTAL ASSETS</b>	<u><u>\$ 6,857</u></u>	<u><u>\$ 111,363</u></u>	<u><u>\$ 118,220</u></u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 758	\$ -	\$ 758
Accrued liabilities	198	-	198
<b>TOTAL LIABILITIES</b>	956	-0-	956
<b>FUND BALANCES</b>			
Reserved for			
Perpetual care	-	111,363	111,363
Unreserved			
Undesignated, reported in			
Special revenue funds	5,901	-	5,901
<b>TOTAL FUND BALANCES</b>	<u>5,901</u>	<u>111,363</u>	<u>117,264</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u><u>\$ 6,857</u></u>	<u><u>\$ 111,363</u></u>	<u><u>\$ 118,220</u></u>

Village of Elsie

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES

Year Ended March 31, 2006

	Special Revenue	Permanent Cemetery Perpetual Care	Total Nonmajor Governmental Funds
	Local Street		
REVENUES			
Taxes	\$ 21,511	\$ -	\$ 21,511
Intergovernmental	20,964	-	20,964
Interest and rents	286	-	286
TOTAL REVENUES	42,761	-0-	42,761
EXPENDITURES			
Current			
Public works			
Routine maintenance	38,054	-	38,054
NET CHANGE IN FUND BALANCE	4,707	-0-	4,707
Fund balances, beginning of year	1,194	111,363	112,557
Fund balances, end of year	\$ 5,901	\$ 111,363	\$ 117,264

Village of Elsie

Component Unit Fund

BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY

March 31, 2006

	<u>Special Revenue</u>
ASSETS	
Cash	\$ 73,692
Investments	45,038
Due from other governmental units	<u>26,558</u>
TOTAL ASSETS	<u>\$ 145,288</u>
FUND BALANCE	
Unreserved - undesignated	<u>\$ 145,288</u>

Village of Elsie

Component Unit Fund

RECONCILIATION OF THE BALANCE SHEET TO  
THE STATEMENT OF NET ASSETS - DOWNTOWN DEVELOPMENT AUTHORITY

March 31, 2006

**Total fund balance - governmental fund** \$ 145,288

Amounts reported for the governmental activities in the statement of net assets are different because:

Long-term assets are not due and receivable in the current period  
and therefore are not reported as assets in the funds.

Long-term assets at year-end consist of:

Loans receivable	<u>40,905</u>
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<b>Net assets of governmental activities</b>	<u><u>\$ 186,193</u></u>
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Village of Elsie

Component Unit Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended March 31, 2006

	Special Revenue
REVENUES	
Taxes	\$ 66,674
Interest and rent	301
Other	<u>13,581</u>
TOTAL REVENUES	80,556
EXPENDITURES	
Current	
Community and economic development	<u>60,215</u>
NET CHANGE IN FUND BALANCE	20,341
Fund balance, beginning of year	<u>124,947</u>
Fund balance, end of year	<u><u>\$ 145,288</u></u>

Village of Elsie

Component Unit Fund

RECONCILIATION OF THE STATEMENT OF REVENUES  
EXPENDITURES, AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL  
FUND TO THE STATEMENT OF ACTIVITIES - DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended March 31, 2006

**Net change in fund balance - governmental fund** **\$ 20,341**

Amounts reported for governmental activities in the statement of activities are different because:

Receipt of long-term receivables is reported as other revenue in the governmental fund, but the receipt of payment reduces long-term assets in the statement of net assets.

In the current year, these amounts consist of:

Loans disbursed	29,000	
Loan payments received	<u>(13,581)</u>	<u>15,419</u>

**Change in net assets of governmental activities** **\$ 35,760**



Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable President and  
Members of the Village Council  
Village of Elsie  
Elsie, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Elsie, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Village's basic financial statements and have issued our report thereon dated February 23, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

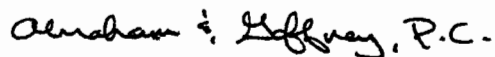
In planning and performing our audit, we considered the Village of Elsie's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village of Elsie's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2006-1, 2006-2, 2006-3, 2006-4, 2006-5, 2006-6, and 2006-7.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described in the accompanying schedule of findings, we consider items 2006-1, 2006-2, 2006-3, 2006-5, 2006-6, and 2006-7 to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Elsie's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2006-8, 2006-9, and 2006-10.

This report is intended solely for the information and use of management and Village Council of the Village of Elsie, Michigan, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

 Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

February 23, 2007

Village of Elsie

SCHEDULE OF FINDINGS

Year Ended March 31, 2006

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Control Over the Financial Statements.

**2006-1 Authorized Pay Rates**

Condition: During our test of payroll transactions, we noted that individual pay rates, including increases in pay rates, were not documented in individual personnel files. This issue was noted and reported in our audit comments last year.

Criteria: Documentation supporting authorized pay rates should be retained for audit purposes.

Effect: A greater risk in safeguarding assets will exist if controls are not in place that provide for the requirement of supporting documentation related to payroll transactions.

Recommendation: We recommend that pay rates approved at the Council level and recorded in the minutes to the Council meetings are also documented in the individual personnel files.

**2006-2 Segregation of Duties**

Condition: The Treasurer for the Village is involved with the opening of the mail, cash receipting, bank reconciliations, the daily balancing process, daily depositing to the bank, and also maintains the general ledger.

Criteria: The intent of internal control is to assure that no one individual is able to control all aspects of a transaction cycle (i.e., receipts, disbursements, etc.). Duties and responsibilities for handling receipts should be arranged and separated so that an employee does not perform more than one of the following functions:

- a. Opening the mail.
- b. Receipting payments.
- c. Balancing receipts to the accounting records.
- d. Performing the bank reconciliation.

Effect: Management must realize that a greater risk in safeguarding receipts will exist if duties and responsibilities are not appropriately arranged and separated. In smaller governmental entities, where the number of employees is limited and duties cannot be adequately separated, management must provide a greater review and supervision of employee functions and procedures.

Recommendation: We recommend that the Village management appropriately arrange and separate duties and responsibilities so that an adequate internal control system exists to safeguard receipts. If management cannot separate duties within the office to provide an adequate internal control system, management and the Village Council must realize that a greater risk in safeguarding receipts will exist.

**2006-3 Utilization of the General Ledger Accounting System**

Condition: The Village is not currently utilizing the automated general ledger accounting system to its fullest extent. The Village's Fund Balance accounting software is used to process accounts payable and payroll disbursements and the receipt activity is summarized and entered into the system on a monthly basis, however the software is not utilized for periodic financial reporting for balance sheet items, including the bank reconciliation process.

To perform monthly bank reconciliations, the Treasurer relies on manually prepared spreadsheets that have no correlation with the automated general ledger.

SCHEDULE OF FINDINGS - CONTINUED

Year Ended March 31, 2006

FINDINGS/NONCOMPLIANCE - CONTINUED

Reportable Conditions Related to Internal Control Over the Financial Statements - continued.

**2006-3 Utilization of the General Ledger Accounting System - continued**

Criteria: As the official financial record of the Village, the financial reports generated by the automated general ledger accounting system should be periodically reviewed for accuracy.

Effect: Management must realize that a greater risk in safeguarding assets will exist if financial reporting generated by the automated general ledger system is not periodically reviewed.

Recommendation: We recommend that the Village Council and management evaluate their general ledger accounting system to determine where efficiencies could be gained in the day-to-day operations of the Village by utilizing the software to its fullest extent. If necessary, we also suggest that management obtain sufficient training so that the software package may be appropriately utilized.

**2006-4 Allocation of Interest**

Condition: The Village did not allocate interest revenue to the Cemetery Fund during the fiscal year ended March 31, 2006. The interest revenue generated by the Cemetery's investment has been retained in the General Fund. This issue was noted and reported in our audit comments last year.

Criteria: Interest revenue generated by each fund's investments should be allocated to the various funds accordingly.

Effect: Although not material to the financial statements taken as a whole, the failure to allocate interest to the Cemetery Fund results in understated revenue for that fund and overstated revenue in the General Fund.

Recommendation: We recommend that the Village management properly allocate all interest revenue generated by each fund's investments.

**2006-5 Compensated Absences**

Condition: The accounting software utilized by the Village is not capable of producing a "leave balances" report detailing each employees' number of unused sick and vacation hours as of a specific date in the past (i.e., during fieldwork, a leave balances report as of March 31, 2006, could not be produced). Furthermore, the leave balances report that was produced as of our fieldwork date reflected balances for former employees of the Village, some of which haven't worked for the Village for four (4) years.

Criteria: To accurately reflect the accumulated compensated absences liability in the Village's Statement of Net Assets, the Village's accounting software should be able to produce an accurate report of unused sick and vacation hours at year-end.

Effect: The Village Treasurer was able to prepare a schedule of unused sick and vacation hours as of March 31, 2006, by using the hours reflected on copies of all employees' pay stubs from the last pay period of the fiscal year.

Recommendation: We recommend that the Village management review the leave balances report that is produced by the accounting software and adjust the report accordingly so that accurate leave balances reports may be generated each pay period. We also recommend that leave balances reports be retained for audit purposes.

SCHEDULE OF FINDINGS - CONTINUED

Year Ended March 31, 2006

FINDINGS/NONCOMPLIANCE - CONTINUED

Reportable Conditions Related to Internal Control Over the Financial Statements - continued.

**2006-6 Quarterly Payroll Reporting to the IRS**

Condition: During our analysis of total payroll expenditures for the fiscal year, we compared salaries and wages expenditure line items in the general ledger to quarterly reports filed with the Internal Revenue Service (Form 941). The amounts reported in the general ledger on the cash basis did not agree with the amounts reported to the IRS.

Criteria: The salaries and wages reflected in the Village's general ledger for the fiscal year should be able to be reconciled to the sum of the four (4) quarterly amounts reported to the Internal Revenue Service on Form 941.

Effect: The Village may have incorrectly reported payroll information to the Internal Revenue Service and potentially remitted an inappropriate amount for employer FICA, employee FICA, and federal income tax withheld. If the Village has under remitted payroll taxes and withholdings, the IRS will likely impose penalties and interest on the Village.

Recommendation: We recommend that the Village management review prior quarterly reporting to the Internal Revenue Service to assure accuracy and take appropriate action to assure that all future quarterly reports are accurately completed.

**2006-7 Downtown Development Authority Loans**

Condition: During our audit fieldwork, we were unable to locate documentation supporting the Downtown Development Authority (DDA) loans receivable balance or the terms of each loan.

Criteria: Loan agreements executed by the DDA should be supported by valid promissory notes that detail the terms of each agreement.

Effect: Without valid promissory notes, the DDA cannot effectively monitor loan activity or enforce payment terms.

Recommendation: We recommend the DDA execute valid promissory notes on all loans. We also recommend that amortization schedules be generated based on the terms detailed in each promissory note and that the DDA monitor loan activity to ensure that the terms of each agreement are enforced.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

**2006-8 Timeliness of Financial Reporting**

Condition: While the Village may periodically present summarized financial information derived from manual records to provide management and the Village Council the ability to make informed financial decisions, generally the audit fieldwork has been delayed for various reasons. The Village's audited financial statements were due to the Michigan Department of Treasury by September 30, 2006.

The purpose of financial reporting is to provide summarized financial information in order for readers (i.e., management, Village Council, etc.) to make informed decisions. These decisions are made to ensure that funds are used for approved purposes and provide a way to hold decision makers accountable for their actions.

SCHEDULE OF FINDINGS - CONTINUED

Year Ended March 31, 2006

FINDINGS/NONCOMPLIANCE - CONTINUED

Findings Related to Compliance with Requirements Applicable to the Financial Statements - continued.

**2006-8 Timeliness of Financial Reporting - continued**

Criteria: According to the State of Michigan's Uniform Accounting Procedures Manual, "The local unit's legislative body must be provided periodic financial reports from the Treasurer and Clerk. Charters may alter who provides the various reports. These reports will assist the Board or Council in determining whether the financial activity of the various funds is within the adopted budgets, the sufficiency of the cash balances to meet the needs of the current period, whether there is sufficient cash available to cover unforeseen expenditures, etc."

Public Act 2 of 1968, as amended, requires local units of government to file audited financial statements with the Michigan Department of Treasury within six months of fiscal year end.

Effect: The Village Council has been unable to make informed financial decisions and the audit has not been completed in a timely manner due to the Village being unable to provide accurate financial information. Because audited financial statements have been delayed, the filing of the Michigan Department of Transportation's (MDOT) Act 51 Report and the Michigan Department of Treasury's F-65 Report have also been delayed, as they are based on information derived from the audited financial statements. As a result of not filing a completed Act 51 Report timely, MDOT has been withholding gas and weight tax revenue from the Village.

Recommendation: We recommend that the Village Council and management review the current financial reporting procedures, and revise them to ensure that the Village Council is provided accurate, timely, and useful information so that they may make informed decisions in the future. This will also allow for the timely filing of the Act 51 Report, F-65 Report, and the audited financial statements with the various departments of the State of Michigan.

**2006-9 Unfavorable Budget Variances**

Condition: During our review of the Village's compliance with the budgeting act, we noted that the Village had expenditures that exceeded the amounts appropriated for various functions within the General Fund and the total amount appropriated for the Major Street Fund. This issue was noted and reported in our audit comments last year.

Criteria: The Uniform Budgeting and Accounting Act requires the Council to amend the original adopted budget "as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined". The Act also states that "an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body".

Effect: The Village Council adopted the budgets at the activity level for the General Fund and at the total expenditure level for Special Revenue Funds. Having the variances as described above, the Village is not in compliance with Public Act 621 of 1978, as amended.

Recommendation: We recommend the Village monitor budgeted expenditures against actual expenditures on a more frequent basis and make budget amendments when necessary to alleviate future unfavorable budget variances.

Village of Elsie

SCHEDULE OF FINDINGS - CONTINUED

Year Ended March 31, 2006

FINDINGS/NONCOMPLIANCE - CONTINUED

Findings Related to Compliance with Requirements Applicable to the Financial Statements - continued.

**2006-10 Investment Policy**

Condition: Although the Village currently has an investment policy, the policy has not been amended to reflect how the Village addresses the various types of risk as discussed in Governmental Accounting Standards Board Statement No. 40.

Criteria: Effective for the year ended March 31, 2006, GASB Statement No. 40 is designed to inform the financial statement users about deposit and investment risks that could affect the Village's ability to provide services and meet its obligations as they become due.

Effect: GASB Statement No. 40 requires that the Village's notes to the financial statements disclose how the Village's investment policy addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. If the investment policy does not address these risks, the notes to the Village's financial statements must disclose that fact.

Recommendation: We recommend the Village review their current investment policy and make the necessary amendments to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk, as necessary.